Cambridge Judge Business School

Finance & Accounting Seminar Series

PRIVATE EQUITY AND THE RESOLUTION OF FINANCIAL DISTRESS

Speaker: Professor Per Strömberg, Stockholm School of Economics Director, Swedish House of Finance (SHOF)
Date: 11 February 2014
Time: 10:30-12:00
Venue: Cambridge Judge Business School (W2.01)

Abstract

We explore financial distress costs of private equity (PE) backed firms by examining 2,151 leveraged loan borrowers between 1997 and 2010. PE-backed firms are no more likely to default than other firms with similar leverage. Distressed PE-backed firms restructure more out of court, restructure faster, and are more likely to remain an independent going concern following the restructuring, compared to leveraged borrowers that are not PE-backed. PE owners are also more likely to retain control of the firm following the restructuring, compared to other distressed firms. These outcomes are partly due to PE owners' greater ability to infuse capital as firms approach distress. Hence, PE investors do not exacerbate the likelihood of financial distress and seem to resolve distress more efficiently than other firms.

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